

**BEFORE THE
PUBLIC SERVICE COMMISSION OF WISCONSIN**

APPLICATION OF WISCONSIN PUBLIC SERVICE)	
CORPORATION FOR AUTHORITY TO ADJUST)	DOCKET NO. 6690-UR-127
ELECTRIC AND NATURAL GAS RATES)	

DIRECT TESTIMONY OF ALEX J. KRONAUER

1 Introduction

2 Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND OCCUPATION.

3 A. My name is Alex J. Kronauer. My business address is 2608 SE J St., Bentonville, AR
4 72716-0550. I am employed by Walmart Inc. ("Walmart") as a Senior Manager,
5 Energy Services.

6 Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS DOCKET?

7 A. I am testifying on behalf of Walmart.

8 Q. IS WALMART SPONSORING ADDITIONAL TESTIMONY IN THIS DOCKET?

9 A. Yes. Walmart is also sponsoring the testimony of Andrew D. Teague.

10 Q. PLEASE DESCRIBE YOUR EDUCATION AND EXPERIENCE.

11 A. In 2011, I earned a Master of Business Administration at the McCombs School of
12 Business at The University of Texas at Austin with a concentration in Finance and
13 Investment Management. From 2011 to 2012, I was a Senior Financial Analyst at
14 TXU Energy, a Texas-based power supplier. My duties included load forecasting
15 and analysis. From 2012 to 2019, I was a Financial Analyst and later a Senior
16 Financial Analyst at CyrusOne, a data center provider in Dallas. I was involved in
17 several power-related areas, including demand response, power procurement,

1 and power expense forecasting. I joined the Walmart Energy Department in July
2 2019 as a Senior Manager. Since joining Walmart, I have completed several utility-
3 related training seminars and earned the Certified Rate of Return Analyst ("CRRRA")
4 certification. My Witness Qualifications Statement is attached as Ex.-Walmart-
5 Kronauer-1.

6 **Q. DO YOU HOLD ANY CERTIFICATIONS THAT ARE RELEVANT TO THE ISSUES BEFORE**
7 **THE COMMISSION IN THIS PROCEEDING?**

8 A. Yes. I am a member of the Society of Utility and Regulatory Financial Analysts
9 ("SURFA"). In 2022, I was awarded the CRRRA professional designation by SURFA.
10 The CRRRA designation is based on education, experience, and the successful
11 completion of a comprehensive written examination.

12 **Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY BEFORE THE PUBLIC SERVICE**
13 **COMMISSION OF WISCONSIN ("COMMISSION")?**

14 A. No, I have not. However, I am concurrently submitting testimony in Docket No. 5-UR-
15 110.

16 **Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY BEFORE OTHER STATE**
17 **REGULATORY COMMISSIONS?**

18 A. Yes. I have submitted over 25 testimonies with state regulatory commissions in
19 Arkansas, California, Colorado, Maryland, Massachusetts, New Mexico, New York,
20 Ohio, Oregon, Pennsylvania, Texas, and Washington.

21 **Q. ARE YOU SPONSORING EXHIBITS IN YOUR TESTIMONY?**

22 A. Yes. I am sponsoring the following exhibits:

- **Ex.-Walmart-Kronauer-1:** Witness Qualifications Statement
- **Ex.-Walmart-Kronauer-2:** Reported Authorized Returns on Equity, Electric Utility Rate Cases Completed, 2019 to Present
- **Ex.-Walmart-Kronauer-3:** Impact of Wisconsin Public Service Proposed Return on Equity vs. National Average Return on Equity for Electric Vertically Integrated Utilities
- **Ex.-Walmart-Kronauer-4:** Reported Authorized Returns on Equity, Gas Utility Rate Cases Completed, 2019 to Present
- **Ex.-Walmart-Kronauer-5:** Impact of Wisconsin Public Service Proposed Return on Equity vs. National Average Return on Equity for Gas Utilities

Q. PLEASE BRIEFLY DESCRIBE WALMART'S OPERATIONS IN WISCONSIN.

A. As shown on Walmart's website, Walmart operates 99 retail units and three distribution centers and employs over 34,000 associates in Wisconsin. In fiscal year ending 2022, Walmart purchased \$3.9 billion worth of goods and services from Wisconsin-based suppliers, supporting over 105,000 supplier jobs.¹

Q. PLEASE BRIEFLY DESCRIBE WALMART'S OPERATIONS WITHIN WISCONSIN PUBLIC SERVICE CORPORATION'S ("WPSC" OR "COMPANY") TERRITORY.

A. Walmart has 14 stores and related facilities that take electric service from WPSC, mostly served on the WPSC Small Commercial and Industrial Service – Time of Use ("Cg 20") rate. Additionally, Walmart also has 18 stores and related facilities that take natural gas service from WPSC, mostly under the WPSC Medium Commercial & Industrial Firm Service greater than 20,000 therms but less than 200,000 therms ("Cg-FM") rate.

¹ corporate.walmart.com/about/wisconsin

Purpose of Testimony and Summary of Recommendations

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to respond to the Return on Equity ("ROE") component of the Company's rate case filing and to provide recommendations to assist the Commission in its thorough and careful consideration of the customer impact of the Company's proposed rate increases.

Q. IN SETTING THE ROE FOR THE COMPANY, SHOULD THE COMMISSION CONSIDER THE IMPACT OF THE PROPOSED RATE INCREASE ON BUSINESS CUSTOMERS?

A. Yes. Electricity and natural gas are significant operating costs for retailers such as Walmart. When rates increase, the increased cost to retailers can put pressure on consumer prices and on the other expenses required by a business to operate. The Commission should thoroughly and carefully consider the impact on customers when examining the requested revenue requirement and ROE, in addition to all other facets of this case, to ensure that any increases in the Company's rates are the minimum necessary to provide safe, adequate, and reliable service, while also providing the Company the opportunity to recover its reasonable and prudent costs and earn a reasonable return on its investment.

Q. PLEASE SUMMARIZE WALMART'S RECOMMENDATIONS AND POSITIONS TO THE COMMISSION.

A. Walmart's recommendations are as follows:

- 1) The Commission should closely examine the Company's requested ROE in light of:

- 1 a. The use of a future test year, which reduces regulatory lag by allowing the
2 utility to include projected costs in its rates at the time they will be in
3 effect;
4 b. The proposed inclusion of Construction Work in Progress ("CWIP") in rate
5 base; and
6 c. Recent rate case ROEs approved by other commissions nationwide.

7 2) Walmart opposes allowing a current return on CWIP and generally recommends
8 that the Commission reject the Company's proposal in this regard. However,
9 Walmart recognizes that the Commission has in the past allowed a current return
10 on CWIP for the Company. If the Commission does approve a current return on
11 CWIP for the Company, Walmart recommends that the Commission recognize that
12 including CWIP in rate base favors the Company and its investors by shifting risk
13 onto customers and reducing uncertainty of cost recovery. This reduced investor
14 risk should be reflected in the Commission's consideration of ROE in this case.

15 **Q. DOES THE FACT THAT YOU MAY NOT ADDRESS AN ISSUE OR POSITION ADVOCATED**
16 **BY THE COMPANY INDICATE WALMART'S SUPPORT?**

17 A. No. The fact that an issue is not addressed herein or in related filings should not be
18 construed as an endorsement of, agreement with, or consent to any filed position.

Revenue Requirement and Cost of Capital

Q. WHAT IS YOUR UNDERSTANDING OF THE COMPANY'S PROPOSED REVENUE REQUIREMENT INCREASES IN THIS DOCKET?

A. My understanding is that WPSC is requesting a 2023 electric revenue increase of \$79.4 million, or 6.6 percent, based on a forward-looking test year ending December 31, 2023. Additionally, for WPSC's natural gas business, WPSC is requesting a 2023 revenue increase of \$30.91 million, or 8.4 percent. See Ex.-WPSC-Zgonc-1, Schedule 1.

Q. WHAT IS THE COMPANY'S PROPOSED ROE IN THIS DOCKET?

A. WPSC is proposing an ROE of 10.00 for both its electric and natural gas business, based on a range of 10.00 percent to 10.75 percent. See Direct-WPSC-Bulkley-5 to Direct-WPSC-Bulkley-6. The requested ROE at the Company's proposed capital structures results in a proposed overall cost of capital of 7.28 percent. See Ex.-WPSC-Zgonc-1, Schedule 4.

Q. IS WALMART CONCERNED ABOUT THE REASONABLENESS OF THE COMPANY'S PROPOSED ROE?

A. Yes, especially when viewed in light of:

- 1) The use of a future test year, which reduces regulatory lag by allowing the utility to include projected costs in its rates at the time they will be in effect;
- 2) The proposed inclusion of CWIP in rate base; and
- 3) Recent rate case ROEs approved by other commissions nationwide.

CWIP in Rate Base

Q. WHAT IS YOUR UNDERSTANDING OF THE COMPANY'S PROPOSAL TO EARN A CURRENT RETURN ON CWIP?

A. My understanding is that the Company proposes to earn a current return on portions of their CWIP balances. See Direct-WPSC-Zgonc-10. The proposed portion for electric is 15.60 percent, and the proposed portion for gas is 50.00 percent. See Ex.-WPSC-Zgonc-1, Schedule 5.

Q. IS WALMART CONCERNED WITH THE INCLUSION OF CWIP IN RATE BASE?

A. Yes. Including CWIP in rate base results in charges to customers for assets that are not yet "used and useful" in providing electric service. Under the Company's proposal, customers will pay for assets prior to receiving any benefits from those assets. This violates the matching principle (*i.e.*, customers should bear a cost only when they are receiving a corresponding benefit).

The problem is compounded by changes in the number and mix of customers that occur during the construction process, before the asset becomes used and useful. For example, customers may pay for certain assets during the construction phase, but leave the system before those assets become operational, thus receiving no benefit for the portion of the cost of the assets for which they paid.

Q. ARE THERE OTHER CONCERNS WITH INCLUDING CWIP IN RATE BASE THAT THE COMMISSION SHOULD CONSIDER?

A. Yes. First, including CWIP in rate base shifts risk onto customers that, traditionally, is assumed by utility investors. Investors are compensated for bearing this risk through

1 the authorization of a return on investment and the value of financing the
2 construction once the asset is placed in service. Including CWIP in rate base places
3 the risk on the utility's customers who receive no current benefit for the use of their
4 money. Second, if the Company encounters problems during the construction of the
5 plant resulting in stoppage of the construction, non-completion of the project, and/or
6 a substantial delay in the project's completion, customers have no recourse for
7 recovering or mitigating the cost of financing the asset's construction.

8 **Q. WHAT IS WALMART'S POSITION REGARDING ALLOWING A CURRENT RETURN ON**
9 **CWIP?**

10 A. Walmart generally opposes allowing a current return on CWIP and therefore
11 recommends that the Commission reject the Company's proposal. However, Walmart
12 recognizes that the Commission has in the past allowed a current return on CWIP for
13 the Company. If the Commission does approve a current return on CWIP for the
14 Company, Walmart recommends that the Commission recognize that including CWIP
15 in rate base favors the Company and its investors by shifting risk onto customers and
16 reducing uncertainty of cost recovery. This reduced investor risk should be reflected
17 in the Commission's consideration of ROE in this case.

1 ***National Utility Industry ROE and Weighted Equity Cost Trends***

2 **Q. IS THE COMPANY'S TOTAL PROPOSED ROE SIGNIFICANTLY HIGHER THAN THE ROEs**
3 **APPROVED BY OTHER UTILITY REGULATORY COMMISSIONS IN 2019, 2020, 2021,**
4 **AND SO FAR IN 2022?**

5 A. Yes. According to data from S&P Global Market Intelligence ("S&P Global"), a financial
6 news and reporting company, the average of the 119 reported electric utility rate case
7 ROEs authorized by nationwide commissions to investor-owned utilities in 2019,
8 2020, 2021 and so far in 2022, is 9.45 percent. The range of reported authorized
9 electric ROEs for the period is 7.36 percent to 10.60 percent, and the median
10 authorized electric ROE is 9.5 percent. See Ex.-Walmart-Kronauer-2.

11 Additionally, according to S&P Global, the average of the 125 reported gas utility
12 rate case ROEs authorized by nationwide commissions to investor-owned utilities in
13 2019, 2020, 2021, and so far in 2022, is 9.56 percent. See Ex.-Walmart-Kronauer-4.
14 The range of reported authorized gas ROEs for the period is 8.80 percent to 10.25
15 percent, and the median authorized gas ROE is 9.60 percent.

16 For both electric and gas authorized ROEs, the average and median values are
17 significantly below the Company's proposed ROE of 10.00 percent. As such, the
18 Company's proposed ROE is counter to broader electric industry trends.

Q. SEVERAL OF THE REPORTED ELECTRIC AUTHORIZED ROEs ARE FOR DISTRIBUTION-ONLY UTILITIES OR FOR ONLY A UTILITY'S DISTRIBUTION SERVICE RATES. WHAT IS THE AVERAGE AUTHORIZED ROE IN THE REPORTED GROUP FOR VERTICALLY INTEGRATED UTILITIES?

A. In the group reported by S&P Global, the average ROE for vertically integrated utilities authorized over the same time period is 9.59 percent, with the overall average generally falling from year to year. See Ex.-Walmart-Kronauer-2. The average ROE authorized for vertically integrated utilities in 2019 was 9.73 percent, in 2020 it was 9.55 percent, in 2021 it was 9.55 percent, and so far in 2022 it is 9.32 percent. *Id.* As such, WPSC's proposed ROE of 10.00 percent is counter to broader electric industry trends and as shown in Figure 1, if approved, would be among the highest approved ROEs for a vertically integrated utility at any time from 2019 to present.

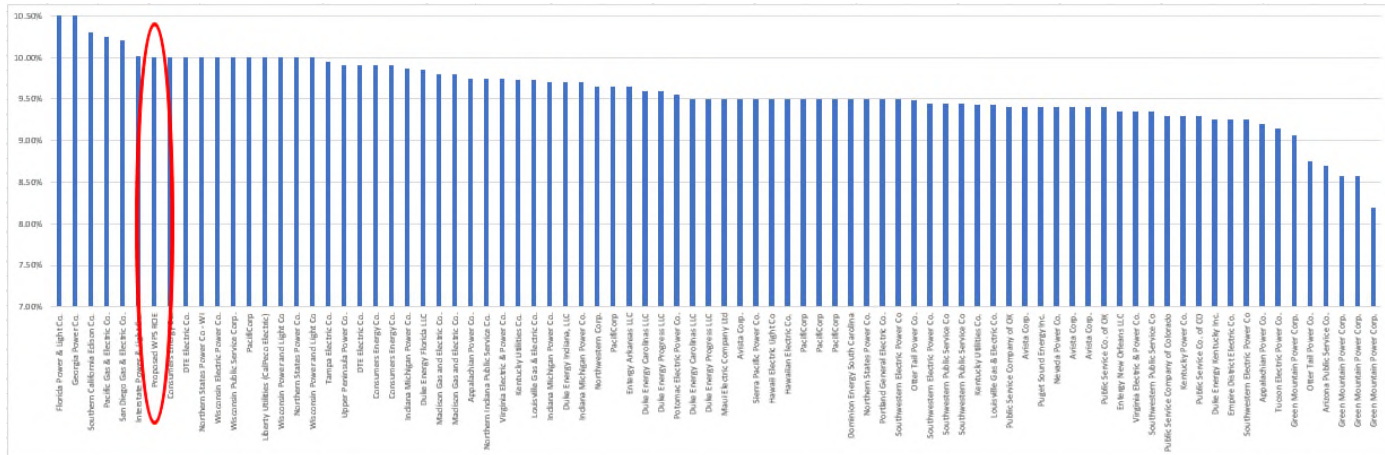


Figure 1. WPSC Proposed ROE of 10.00 Percent Versus Approved ROEs, Vertically Integrated Utilities, 2019 to Present.

Additionally, as shown in Figure 2, WPSC's proposed ROE of 10.00 percent, if approved, would be among the highest approved ROEs for a gas utility at any time

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1 **Q. IS WALMART RECOMMENDING THAT THE COMMISSION BE BOUND BY ROEs**
2 **AUTHORIZED BY OTHER STATE REGULATORY AGENCIES?**

3 A. No. Decisions of other state regulatory commissions are not binding on this
4 Commission. Each commission considers the specific circumstances in each case in its
5 determination of the proper ROE and capital structure. Walmart is providing this
6 information on industry trends on ROE from its perspective as a customer with
7 operations that are nationwide as it believes that recently authorized ROEs in other
8 jurisdictions provides a general gauge of reasonableness for the various cost of equity
9 analyses presented in this case. Moreover, Walmart believes that it is appropriate for
10 the Commission to consider how any ROE authorized in this case impacts existing and
11 prospective customers relative to other jurisdictions.

12
13 **Conclusion**

14 **Q. WHAT IS YOUR RECOMMENDATION TO THE COMMISSION REGARDING THE**
15 **COMPANY'S PROPOSED ROE?**

16 A. The Commission should closely examine the Company's proposed revenue
17 requirement increases and the associated proposed increases in ROE, especially when
18 viewed in light of:

- 19 1) The use of a future test year, which reduces regulatory lag by allowing the utility
20 to include projected costs in its rates at the time they will be in effect;
21 2) The proposed inclusion of CWIP in rate base; and
22 3) Recent rate case ROEs approved by other commissions nationwide.

1 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

2 **A. Yes.**